

# The Link

A Value Chain Approach to Doing Business in Africa



**USAID**  
FROM THE AMERICAN PEOPLE

**COMPETE**  
The Competitiveness and Trade Expansion Program

The Newsletter of the USAID Competitiveness and Trade Expansion Program (COMPETE)

## USAID COMPETE Transit Team Makes Strides Toward Single Window Operations on the Northern Corridor

In early December the COMPETE transit team hit the road traveling to border crossings at Malaba, Busia, (Kenya/Uganda borders) and Gatuna (Rwanda/Uganda). The USAID COMPETE team along with members of the Seamless Transport Committee of the Northern Corridor and the National Single Window Project met with government officials and

Rwanda had high level buy-in from government: in Rwanda, the national workshop was opened by the Minister of Trade and Industry, Hon. Monique Nsanzabaganwa and In Uganda, the national workshop was opened by the Minister of State for Tourism, Trade and Industry, Hon. Nelson G. Gagawala Wambuzi.



On the Rwanda/Uganda border at Gatuna/Katuna. From left, Kanyamibwa Vincent, (Rwanda Immigration and Emigration Border Manager at Gatuna), Shemmy Simuyemba (USAID COMPETE), Moses Twizere (Acting Head of Station, Uganda Revenue Authority at Katuna) and Alex Kabuga (Project Coordinator, Kenya National Single Window Project)

key players in the transit sector to familiarize them with the processes and procedures that need to be in place to move to a fully functioning Single Window system. It is an incremental process requiring coordination and cooperation among government agencies in charge of revenue, customs, agriculture, pest control, and standards. Sessions in Uganda and

At Malaba and Busia, Ugandan officials agreed to take action to reduce the queues of trucks at these border crossings. In their MOU with the Seamless Transport Committee representatives of 7+ Ugandan government agencies led by the Ugandan Revenue Authority and the private sector, namely transport associations and banks agreed to undertake joint

Volume 1, Issue 9  
November/December '10

### INSIDE THIS ISSUE:

<b>USAID COMPETE Transit Team Makes Strides Toward Single Window Operations on the Northern Corridor</b>	<b>1-2</b>
<b>3rd Swahili Fashion Week Draws Record Crowds</b>	<b>2</b>
<b>EAC Considers Prototype Trade Statistics Database</b>	<b>3</b>
<b>USAID COMPETE Partnership Fund Searches for Successful Agricultural Models</b>	<b>3-4</b>
<b>Spotlight on Cereal Growers Association, Lessons Learned</b>	<b>4</b>
<b>Market Access Through Quality Storage</b>	<b>5</b>
<b>Warehouse Receipts System: An Introductory Course</b>	<b>5-7</b>

*“Busia market has 2,867 traders who trade in various agricultural products including cereals, millet, groundnuts, sorghum, maize, vegetables, fruits and general merchandise. As marketers, we are involved in cross-border trade to Kenya but we are not understood and there are a lot of misconceptions about marketers. This common border meeting is the first time we have been given the opportunity to present our case to all border agencies sitting in one room”*

**Patrick Kenyatta Wanjara, Busia Main Market Vendors Association**

## USAID COMPETE Transit Team Makes Strides Toward Single Window Operations on the Northern Corridor

*Continued...*

inspections of all import and export cargo and commence full 24/7 operations by January 31st, 2011. Other highlights in the MOUs include the launch of quarterly transit stakeholder meetings and calibration of weigh bridge equipment to be managed jointly by the Uganda National Bureau of Standards and the Kenyan Department of Weights and Measures. In a move that sets the stage for increased cross border trade, Kenyan and Ugandan revenue authorities agreed to allow trucks licensed to haul Ugandan cargo from Uganda to Kenya and vice versa; that agree-

ment will also go into effect on January 31, 2011.

In Rwanda at the Gatuna crossing, representatives from 8 Rwandan government agencies and private sector transit stakeholders agreed to work together to facilitate 24/7 operations and launch joint inspections of cargo. The group took steps to lead toward full One Stop Border Post operations at the Gatuna border where outward goods transiting to Uganda are cleared on the Uganda side of the border and inbound goods coming into Rwanda are cleared on the

Rwandan side. The border agencies also formed a Joint Working Committee that will meet once a week to discuss overall border operations.

By tackling the transit delays faced at border crossings along the Northern Corridor, USAID COMPETE is helping to build the foundation for a Single Window system so that border crossings operate more efficiently, reducing the cost and travel time of cargo shipped on this East African transit artery. The next stop on the agenda is Tanzania where training on joint border operations will begin in early 2011.

## 3rd Swahili Fashion Week Draws Record Crowds

USAID/COMPETE supported the Origin Africa Showcase during Swahili Fashion Week in Dar es Salaam in November.

The event showcased the seven best 'ready to wear' designers from four East/Southern African countries. The event featured designs with commercial appeal and African flair and encouraged networking to profile African fashion. The show promoted opportunities for local talent and manufacturers to work together to develop a strong African fashion industry.

As part of its efforts to introduce new talent to U.S. markets, USAID/COMPETE also organized a workshop for participating designers on "Integrating Design and Marketing," featuring presentations on the U.S. market for apparel, crafts and home décor. The workshop included discussions about different



*Models show off new fashions during the Swahili Fashion Week in Dar es Salaam in November.*

retail channels, brands, statistics on exports of various categories of products, and useful strategies to tailor products to U.S. buyers and markets.

Flotea Massawe, a Tanzanian business woman who entered the U.S.

Market with support from USAID's East and Central African Trade Hub, joined the panel and described her compelling story of Marvelous Flotea Co. Ltd and how her Dar es Salaam based company went from local beginnings to global awareness.

## EAC Considers Prototype Trade Statistics Database

### EAC Secretariat

A one-day meeting to consider the prototype EAC Trade Statistics Database was held 29 October at the EAC Headquarters and was attended by key stakeholders that included EAC Secretariat and USAID/COMPETE officials.

Taking into consideration the imperative role of trade statistics in the operations of the Common Market and building on to a Monetary Union, the EAC Trade Statistics Working Group, recommended USAID/COMPETE to provide support to the EAC in the development of a web-based EAC Trade Statistics Database.

In this context, the EAC secretariat in collaboration with COMPETE have developed a framework that is aimed at improving the quality of trade statistics in the region. The framework is built on consolidating the achievements so far made in the ongoing compilation practices of trade statistics in the region.

The key activities highlighted in

the framework hinge on harmonisation and dissemination of trade statistics that include among others: development and maintenance of a robust web-based EAC Trade Statistics Database; harmonization of key compilation practices in trade statistics in order to enhance data comparison among EAC Partner States which will support the operations of the Customs Union and Common Market; enhance capacities of relevant agencies in the Partner States and EAC Secretariat; reconciliation of trade data among the EAC Partner States; and creation of a platform for comprehensive exchange of experiences and sharing the regional capacities among EAC Partner States.

The web-based database is expected to respond to policy makers' and trade statistics users' needs such as generation of time series reports for intra and extra EAC trade for all products or specific products by value and volume; EAC Partner States trade performance at trade partner level, market access requirements, import tariffs as



well as transport and transit requirements and EAC preferential arrangements with other trading blocks.

The one-day meeting provided critical inputs and comments for further improvements on the prototype and it is the first of a series of consultative meetings between EAC and COMPETE geared towards the development of an EAC regional web-based trade statistics database that will facilitate exchange of information on trade in the public and private sectors and will foster trade in the EAC single customs territory, serving as a one stop center for trade information.

The output of the meeting will now be subjected to a regional workshop involving Partner States experts to consider the prototype EAC Trade Statics Database.

## USAID COMPETE Partnership Fund Searches for Successful Agricultural Models

COMPETE is working through its Partnership Fund to help several local partners find effective agricultural models that will increase access to markets for smallholder farmers and enhance food security. COMPETE has explored group-based "Model Satellite Stores (MoSSs)" with Cereal Growers Association in Kenya and Tanzania; "Commercial Village Stores" with Farm Concern International

in Kenya; value added rice milling aggregation points and warehouse receipts systems with Rural Development Initiatives in Tanzania; and agro dealer market linkages with Agricultural Market Development Trust (AGMARK) in Kenya, Uganda and Rwanda.

All the above models have positive attributes, namely:

- Better post-harvest handling practices

- Group aggregation, which draws more buyers
- Increased access to finance
- Greater market information and training

The most successful model to date has been AGMARK's agro-dealer model. The agro-dealer model succeeds by creating a local community of trust and efficiency. Agro-dealers establish relationships with



## USAID COMPETE Partnership Fund Searches for Successful Agricultural Models

*Continued...*

local smallholder farmers by selling them agricultural inputs: fertilizer, equipment, seeds etc. Once the relationship is established, smallholder farmers feel comfortable selling their outputs to the same dealers who sold them their inputs. This circular process cuts

down on transportation and logistical costs. The agro dealers add value through bulk aggregation and milling, selling the end product to large buyers. The end result is that thousands of smallholder farmers reach a formal market through a sustainable and local connection.

The agro-dealer model is successfully working in Kenya, Uganda, and Rwanda. In year three, COMPETE will continue to test this model and expand it throughout the region.

## Spotlight on Cereal Growers Association, Lessons Learned

By Steve Humphreys, COMPETE Staple Foods Component Lead

USAID COMPETE grantee, Cereal Growers Association (CGA), works with smallholder cereal farmers to build their capacity and steer them toward profitable farming. Since the start of the COMPETE grant in October 2009, CGA has organized over a hundred farmer based organizations in the Transmara area of Kenya and the Kongwa district of Tanzania. In areas that were previously considered marginal for maize growing or too rural for market connections, these farmers have now secured contracts with WFP Purchase for Progress program. Additionally, these farmers have also built or secured proper storage areas, affording them the ability to wait for suitable buyers who offer fair prices for their product.

The CGA farmers are delighted with their new marketing opportunities. Farmers, Mr. Jeremiah Mtagwa and Mrs Damalis Nuhu, from the Tanzania region stated: “CGA helped bring us together by mobilizing us, and training us in quality control, post harvest handling, storage and provided us with business skills. Before we had no control over quality or price, and

just accepted whatever we could get at Kibaigwa market. CGA helped us register the Pandambire store with the Tanzania warehousing authority. We want to do the same now with a further 67 warehouses in Kongwa district so we can supply more product to P4P and private traders. So far we have a loan of Tz shillings 150 million from National Microfinance Bank as a result of having been registered, and holding significant quantities of good quality maize in our store. The bank has been able to advance us up to 70% of the value of our stocks (against the current Kibaigwa wholesale price) on presentation of the delivery note at their branch office in Kongwa.

This advance has enabled us to go out and buy more maize from other farmers in the district, to help fulfil the P4P order.”

Mr. Mtagwa, who farms 100 acres of his own, and Mrs. Nuhu, who grows maize on 130 acres, say they are now ready to expand and formalise this business using warehouse receipts. The model, exemplified by Mr. Mtagwa and Mrs. Nuhu, is proving highly successful in helping smallholders gain access to commercial markets. In the coming season, USAID COMPETE and CGA hope to expand this model across the region.



## Market Access Through Quality Storage

By Steve Humphreys, COMPETE Staple Foods Component Lead

Southwest Kenya is a fertile area with good crop production potential. Yet, farmers in this fertile area have a difficult time earning income through agricultural production. Located a great distance from main urban centers, South West Kenyans have very limited marketing opportunities. Transportation is difficult and expensive and storage is inadequate. Because of these restraints, farmers sell their goods well below market price.

There are organizations working to improve farmers' incomes in Southwest Kenya. Two such groups are USAID COMPETE grantees, Agricultural Market Development Trust (AGMARK) and Cereal Growers Association (CGA).



*Ambassador Cousin with Maasai women farmers from the Lolgorian group, who have for the first time built and funded their own maize storage warehouse in background at a cost of USD 6000*

On December 9th, a delegation of VIPs from the US Mission to UN agencies, USAID, the US Embassy, World Food Programme (WFP),

and USAID COMPETE visited Southwest Kenya to see how CGA and AGMARK were supporting farmers. They discovered motivated farmer groups who had been trained in post harvest handling and quality standards. They also found refurbished or rented stores, enabling farmers to bulk and keep high quality product. The new quality standard and ability to store is drawing the attention of the WFP Purchase for Progress program and private traders. AGMARK and CGA farmer groups are gaining market access by being able to store high quality product, and waiting for buyers to come to them with fair market prices.

## Warehouse Receipts System: An Introductory Course

By USAID COMPETE Structured Trade Specialist, Ian Goggin

There remain a number of misunderstandings regarding warehouse receipts their use and how they can assist and benefit agricultural markets, whilst at the same time providing banks with the opportunity to provide finance to depositors, using the underlying commodity as collateral. Warehouse receipts are not new and have been in use around the world in one form or another prior to banks being formed. Before money as we know it today became accepted as a means of purchase, gold was the currency of the day. However, this was a problem in itself, not only because it was a precious and highly sought after commodity, but also because of its

weight. It was not easy to carry as a result, nor was it safe to keep at home or at the work place because of its value which made it a target for thieves. The goldsmiths of the time were capable of keeping the gold safe and many people "deposited" their gold with them for safekeeping. In return, the depositor was issued with a warehouse receipt, indicating the amount of gold held by the goldsmith on behalf of the depositor. This became a tradable document and depositors used this to make payment for goods and services rendered to them, rather than carry the actual gold with them.

This illustrates just how long ago the warehouse receipt system has been operational and gives an insight into the fact that they have stood the test of time and are now used for a large number of commodities deposited into a certified storage facility.

### How the Warehouse Receipt System works:

As indicated above, Warehouse Receipt Systems (WRS) have a long history of proving security for trade in commodities and the resultant finance. Once issued, a warehouse receipt is a document guaranteeing the existence and

## Warehouse Receipts System: An Introductory Course

By USAID COMPETE Structured Trade Specialist, Ian Goggin

*Continued...*

availability of a given quantity and quality of a commodity in storage; commonly used as the instrument of transfer of ownership in both cash and futures transactions. Depositors can be any of the links in the agricultural industry, including producers, farmers groups, traders, processors, exporters and government agencies.

The warehouse which issues the warehouse receipt holds the commodity or commodities in safe custody for the depositor, undertaking responsibility to ensure the integrity of the goods in store and to make good any losses which may occur as a result of theft or damage, but has no direct interest in the goods stored in the warehouse. Even where the warehouse operator goes into liquidation, the depositor's commodities are not subject to seizure by creditors as the goods remain the property of the depositor. The only exception to this is the warehouse operator's ability to recover any outstanding monies due to him by the depositor, in relation to storage costs.

So, how does the system work? The underlying reason for issuing a warehouse receipt is that there are commodities deposited in warehouses in the first place. There should be no restriction as to the type of agricultural commodity in respect of which a warehouse receipt is issued, nor on the quality parameters attached to them, provided that the warehouse operator is capable of their safe storage. With this in mind, the following is a brief description of how the sys-

tem works:

- The depositors place their commodities, which are required to meet defined quality standards, at registered warehouses;
- The registered warehouses are required to meet prescribed physical and technical standards, prior to being registered;
- The registered warehouse operators issue "Transferable Warehouse Receipts" stating the type of commodity, the quantity and quality of commodity deposited and the

a bank or other financial institution where the stored commodity is pledged as security for a loan or to a trade counter-party and can only be redeemed once the bank or financial institution has issued the "all clear" for this to happen;

- This will help the depositor to secure relatively short-term financing, through the payment of a loan, calculated as a percentage of the prevailing market value of the commodity, using the crop as collateral.

- The depositor can then wait until



date up to which storage costs have been paid, amongst other details;

- The registered warehouse operators guarantee delivery of the commodity described on the Warehouse Receipt or is liable for any losses incurred, the quantum of which will be determined through arbitration;
- The warehouse receipts issued are transferable, meaning that it may be transferred to a new holder on payment to the depositor of an agreed price for the goods in store. Such transfer should be conducted at the central registry, which is responsible for ensuring that the WRS is properly managed;
- Alternatively, it may be ceded to

market conditions are more conducive to sell the commodity in the warehouse;

- In cases where the depositor has borrowed money using the commodity as collateral, the payment for the commodity is made through the financing bank. The bank will then deduct the loan together with any interest and other charges, before crediting the account of the depositor with the balance. In some countries commodity exchanges perform this function and guarantee payment to all parties concerned, warehouse operator, bank and of course the depositor;
- Every depositor will be required to pay storage and any other fees



## Warehouse Receipts System: An Introductory Course

By USAID COMPETE Structured Trade Specialist, Ian Goggin

*Continued...*

agreed to in the storage contract, which should be signed at the time of the initial deposit;

- Depositors are also responsible for the cost of transporting the commodity to a registered warehouse and, unless they sell the warehouse receipt for the transport costs incurred at the time of discharge.

### The Advantages of Warehouse Receipt Systems:

There is no doubt that a properly functioning WRS can help to address many of the constraints currently experienced in commodity marketing and financing. These include:

- The use of inventory (commodities) as collateral securing finance can be made much easier and helps to lower financing costs, especially for smallholder producers, which remains the most vulnerable group in the agricultural industry;
- Many of the problems experienced by small-holder producers are tied to the very long marketing chain and, the use of WRS shortens this chain and has the potential to increase producer profits;
- There is a great deal of information regarding crop losses due to poor storage facilities, which are usually on farm. There can be no doubt that commodities are better stored by professional warehouse operators, therefore reducing storage losses and ultimately increasing revenue to farmers;
- The use of standardised grades and quality parameters allows trading to occur "sight unseen", which helps to reduce transaction costs,

whilst at the same time safeguarding against cheating on weights and quality;

- Many countries in Africa still have a government agency responsible for securing and maintaining strategic grain reserves. The WRS can help to reduce the costs attached to the procuring and management of these reserves;
- A lot of work has been done to calculate the potential benefits to depositors who choose to take a loan from a bank and using their commodities on a warehouse receipt as collateral. There is no doubt that based on normal price trends between, harvest time where prices are traditionally low and some three or four months later, the benefits to depositors after paying storage and handling fees to the warehouse operator and interest to the bank are significant. Requirements for successful receipts system

### For viable WRS:

- Build discipline and trust in the warehouse- integrity is key;
- Economies of scale to save costs of oversight and administration;
- Cut costs of financing that are passed on to farmer;
- Find correct balance of regulatory oversight by state;
- Bond and insurance requirements against default, loss or theft.

### For viable negotiable receipts:

- Specific licensing of warehouse operators for WR;
- Establish tracking system for WR to register every change of owner-



ship (to ensure only one party has legal title);

- Establish clear legal rights for receipt bearers and legally establish receipts as documents of title.

Once these are in place, there is a need for awareness campaigns and training courses, to educate the industry and the public at large of what the real potential benefits of a warehouse receipt program are. There is little doubt that the most disenfranchised actor in the agricultural industry is the small scale farmer, who stands to gain (or lose) the most depending on whether or not the WRS works or not. Banks need to be more flexible in their attitude to warehouse receipts and to recognize them for what they are, a financial instrument that can help to ensure that they meet their targets.

USAID COMPETE  
123 Gardenia Road  
Off Magnolia Close, Gigiri  
P.O. Box 1555 - 00606  
Nairobi, Kenya

Phone: +254-719-032-000  
Fax: +254-719-032-271  
Email: [info@competeafrica.org](mailto:info@competeafrica.org)

**The Link** is the newsletter of the USAID Competitiveness and Trade Expansion Program and the East and Central African Trade Hub.

USAID COMPETE works to:

- Reduce barriers to trade
- Enhance the competitiveness of selected value chains including staple foods
- Promote investment and trade between the U.S. and East and Central Africa

For more information about COMPETE, visit our website, [www.competeafrica.org](http://www.competeafrica.org) or

Subscribe to **The Link** at: [info@competeafrica.org](mailto:info@competeafrica.org)

**The Link** is published by the USAID East Africa Competitiveness and Trade Expansion Program. The views expressed in this publication do not necessarily reflect the views of the United States Agency of International Development or the United States Government.



*Celebrating the spirit, style & innovation of modern Africa*

Fiber to Fashion 2011

Port Louis, Mauritius

16 – 18 March 2011

Fiber to Fashion 2011 highlights the creativity and innovation of the African cotton, textile and clothing industries, and raises the profile of the continent as a source of supply of cotton, textile products, fabrics and clothing. This world class event will bring together business leaders and decision makers from 20 countries across Africa, providing opportunities for international buyers to establish contacts with African designers and industry, and to do business. This exciting event includes:

- A Platform for Business - Buyer/Seller Business Opportunities
- Inspiration, Innovation & Technology – Symposium Program
- Pan-African Graphic Design Show
- Origin Africa Designer Showcase

For more information and sponsorship opportunities, please contact:  
Barry Fisher, COMPETE, (Email: [bfisher@competeafrica.org](mailto:bfisher@competeafrica.org), Tel: +254 20 4212000/733411706 (mobile)  
Ms Lilowtee Rajmun, Mauritius Export Association (Email: [Lilowtee@mexa.mu](mailto:Lilowtee@mexa.mu), Tel: +230 2085216/2111476/2080087  
Visit our website at [www.origin-africa.org](http://www.origin-africa.org)

***Registration Opens Soon!***